

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6375

BILL NUMBER: SB 242

NOTE PREPARED: Dec 11, 2006

BILL AMENDED:

SUBJECT: Police Pension Benefits.

FIRST AUTHOR: Sen. Smith S

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill increases the retirement, disability, and survivor benefits by 50% for police officers who: (1) are members of the 1925 Fund, the 1953 Fund, or the 1977 Fund; and (2) retire, become disabled, or die after December 31, 2007. The bill provides for a one-time adjustment in the benefits of police officers who retire, are disabled, or die before January 1, 2008.

Effective Date: January 1, 2008.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: Based on 2005 data, for the local police and fire pension plans (the 1925 Fund and the 1953 Fund), it is estimated that the total increase in unfunded accrued liability would be \$1.66 B. Since the funding for the local plans is on a pay-as-you-go basis, pension benefits paid by the local units would increase by approximately \$89.8 M annually statewide.

For the 1977 Fund, it is estimated that the unfunded accrued liability would increase by \$1.0 B. Annual funding statewide would increase by about \$137 M, or 28.8% of payroll (i.e., the total employer contribution rate would increase by 28.8%, from the current 21% of payroll to a total employer contribution rate of 49.8% of payroll).

There would also be additional administrative costs associated with revising all of the benefit payments already in pay status. These additional costs are not included in the estimated impacts described above.

NOTE: The above estimate will be updated upon receipt of 2006 data.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Police and Fire Fund.

Local Agencies Affected: Those municipalities with members in the affected funds.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Police and Fire Funds, 317- 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Contribution Rate - An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

Funding – Funding is a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Pay-As-You-Go Method– The Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.